

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF EAST)	
KENTUCKY POWER COOPERATIVE, INC. FOR)	CASE NO.
THE TWO-YEAR BILLING PERIOD ENDING)	2013-00324
JUNE 30, 2013 AND THE PASS THROUGH)	
MECHANISM FOR ITS SIXTEEN MEMBER)	
DISTRIBUTION COOPERATIVES)	

ORDER

On September 18, 2013, the Commission initiated a two-year review of East Kentucky Power Cooperative, Inc.'s ("EKPC") environmental surcharge¹ as billed to its member distribution cooperatives ("Member Cooperatives") for the two-year period July 1, 2011, to June 30, 2013. Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of the environmental surcharge; disallow any surcharge amounts that are found not to be just and reasonable; and reconcile past surcharges with actual costs recoverable. At two-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge, disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

¹ EKPC's environmental surcharge was initially approved in Case No. 2004-00321, Application of East Kentucky Power Cooperative, Inc. for Approval of an Environmental Compliance Plan and Authority to Implement an Environmental Surcharge (Ky. PSC Mar. 17, 2005).

The September 18, 2013 Order also initiated a two-year review of the 16 EKPC Member Cooperatives' pass-through mechanism² as billed to their retail member customers for the two-year period August 1, 2011, to July 31, 2013.³

The Commission issued a procedural schedule that provided for two rounds of discovery, the filing of prepared testimony, and intervenor testimony. EKPC filed prepared direct testimony and responded to two requests for information. The Member Cooperatives responded to two rounds of discovery. No parties requested intervenor status to this proceeding. On January 21, 2014, EKPC filed a motion stating that EKPC and the Member Cooperatives believed the case record to be complete and further stated that this case may be submitted for decision on the current record without a hearing.

SURCHARGE ADJUSTMENT

The September 18, 2013 Order initiating this case indicated that since the period under review in this proceeding may have resulted in over- or under-recoveries of allowable environmental compliance costs, the Commission would entertain proposals to adopt one adjustment factor to net all over- or under-recoveries. EKPC determined

² Case No. 2004-00372, Application of Big Sandy RECC, Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Cumberland Valley Electric, Inc., Farmers RECC, Fleming-Mason Energy Cooperative, Inc., Grayson RECC, Inter-County Energy Cooperative Corporation, Jackson Energy Cooperative Corporation, Licking Valley RECC, Nolin RECC, Owen Electric Cooperative, Inc., Salt River Electric Cooperative Corporation, Shelby Energy Cooperative, Inc., South Kentucky RECC and Taylor County RECC for Authority to Pass Through the Environmental Surcharge of East Kentucky Power Cooperative, Inc. (Ky. PSC Mar. 17, 2005)

³ The Settlement Agreement approved on March 17, 2005 in Case Nos. 2004-00321, East Kentucky Power Cooperative, Inc., and 2004-00372, Big Sandy RECC, et. al., allows the member distribution cooperatives to pass through the environmental surcharge to their customers at approximately the same time as EKPC bills the environmental surcharge to the member distribution cooperatives, thus avoiding a billing lag for the member distribution cooperatives. The costs incurred in the months of June 2011 through May 2013 are billed to the member distribution cooperatives in the months of July 2011 through June 2013, with these same costs passed through to the member customers on the bills for August 2011 through July 2013.

that it had no adjustments to its environmental costs for the period under review. The Commission has reviewed and finds reasonable EKPC's calculation of over- or under-recovery for the review period covered in this proceeding and finds no need for any subsequent adjustments of EKPC's environmental costs.

RATE OF RETURN

The Settlement Agreement approved in Case No. 2004-00321 provided that the rate of return would be based on a weighted average debt cost of the debt issuances directly related to the projects in EKPC's compliance plan, multiplied by a Times Interest Earned Ratio ("TIER") factor. The Settlement Agreement further provided that EKPC update the return as of the end of each six-month review period and request Commission approval of the updated average cost of debt.⁴ However, the settlement agreement did not specify whether the expense month or billing month constitutes the end of the review period.

EKPC updated the weighted average cost of debt as of May 31, 2013, the last expense month of the review period, as requested in the initial request for information in this case. EKPC also provided an updated weighted average cost of debt as of June 30, 2013, the last billing month of the review period. For both calculations EKPC determined the rate of return utilizing a TIER factor of 1.50, which was authorized in Case No. 2011-00032.⁵ Utilizing these components, EKPC calculated an updated rate

⁴ Case No. 2004-00321, East Kentucky Power Cooperative, Inc. (Ky. PSC Mar. 17, 2005), Appendix A at 3.

⁵ Case No. 2011-00032, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Six-Month Billing Period Ending December 31, 2010; and the Pass-Through Mechanism for its Sixteen Member Distribution Cooperatives (Ky. PSC Aug. 2, 2011).

of return as of May 31, 2013, of 6.060 percent, and a rate of return as of June 30, 2013, of 6.063 percent. Stating that June 2013 provided the most current debt cost information,⁶ EKPC proposed an overall rate of return of 6.063 percent be used starting with the first month following the final Order in this case.⁷

In previous EKPC environmental surcharge review cases, the Commission has consistently requested that the rate of return be updated as of the last expense month of the review period, with one exception. In Case No. 2013-00140,⁸ the Commission inadvertently approved EKPC's proposal to update its rate of return as of the last billing month of the review period. The issue of whether the expense or billing month constitutes the end of the review period was discussed at the November 7, 2013, informal conference. EKPC stated that it was amenable to either month's being considered the last month of the review period, but requested clarification from the Commission on the issue.

The Commission does not find any compelling reason to deviate from the practice that has been followed in previous EKPC environmental surcharge reviews, which clearly established that the last expense month constitutes the end of the review period. This position is also consistent with the practice established with other Kentucky electric utilities with environmental surcharges whereby the last expense month of the review period is the basis for updating their rates of return. Accordingly, the

⁶ Direct Testimony of Isaac S. Scott on Behalf of East Kentucky Power Cooperative, Inc. ("Scott testimony") at page 6.

⁷ Response to the Commission Staff's First Request for Information, Item 5, page 8 of 12.

⁸ Case No. 2013-00140, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of East Kentucky Power Cooperative, Inc. for the Six-Month Billing Period Ending December 31, 2012, and the Pass Through Mechanism for its Sixteen Member Distribution Cooperatives (Ky. PSC Sept. 17, 2013).

Commission finds that the expense month should constitute the end of an environmental surcharge review period.

The Commission has reviewed and finds reasonable EKPC's determination of the updated rate of return reflecting the updated weighted average cost of debt as of May 31, 2013, and a 1.50 TIER factor. The Commission finds that EKPC should use a rate of return of 6.060 percent for all environmental surcharge monthly filings submitted after the date of this Order.

RETAIL PASS-THROUGH MECHANISM

Retail Pass-Through Adjustment

Each of the Member Cooperatives determined an over- or under-recovery for its surcharge pass-through mechanism, with 13 of the Member Cooperatives having over-recoveries and three of the Member Cooperatives having under-recoveries. EKPC stated that the Member Cooperatives proposed that the over-recoveries be refunded to, or the under-recoveries be collected from, ratepayers as an adjustment to the retail pass-through factor for each month in the six-month period following the Commission's Order in this proceeding.

The Commission has reviewed and finds reasonable each of the Member Cooperatives' calculations of their respective over-recoveries and under-recoveries for the review periods covered in this proceeding. The Commission finds reasonable the Member Cooperatives' proposals to amortize their respective accumulated over- or under-recovery amounts in each of the first six billing months following the final Order in this proceeding.

A schedule of the over- or under-recovery for each Member Cooperative and the related monthly adjustments is shown in the Appendix to this Order. The impact of the over- or under-recovery on an average residential customer's monthly bill for each respective Member Cooperative is also indicated.

SURCHARGE ROLL-IN

The environmental surcharge statute directs the Commission to incorporate surcharge amounts found just and reasonable in the utility's existing base rates, but only "to the extent appropriate." EKPC proposes not to incorporate, or "roll in," any of its environmental surcharge amounts into its existing base rates in this proceeding. EKPC states that it believes a roll-in of environmental costs should be allocated between demand and energy-rate components based on a cost-of-service study, and should occur during a wholesale base rate case proceeding. As with a roll-in to its wholesale base rates, EKPC believes that the corresponding adjustment to retail base rates should be performed in conjunction with a base-rate proceeding. Further, EKPC states that several of its Member Cooperatives believe it is important that retail customers be aware of the full cost of environmental compliance and the impact on their monthly bills.⁹ EKPC states that performing a roll-in would not provide full disclosure of environmental compliance costs on retail customers' bills, as a significant portion of such costs would be collected in base rates.

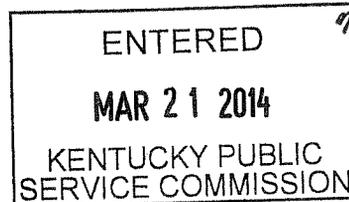
The Commission has reviewed and finds reasonable EKPC's recommendation not to roll environmental surcharge amounts into base rates at the present time.

⁹ Scott testimony at page 12.

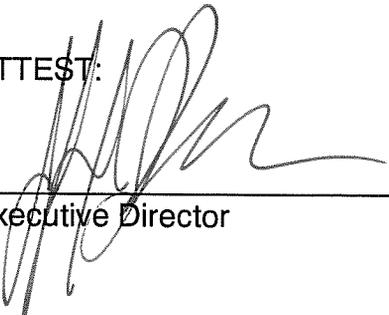
IT IS THEREFORE ORDERED that:

1. The amounts billed by EKPC through its environmental surcharge for the period July 1, 2011, to June 30, 2013, are approved.
2. EKPC shall use a rate of return of 6.060 percent in all monthly environmental surcharge filings subsequent to the date of this Order.
3. EKPC's Member Cooperatives shall include the applicable monthly retail pass-through adjustments, shown in the Appendix to this Order, in the determination of each Member Cooperative's respective pass-through mechanism in each of the first six months following the date of this order, as discussed herein.

By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
 COMMISSION IN CASE NO. 2013-00324 DATED **MAR 21 2014**

Member Cooperatives' Adjustment to
 Monthly Pass-Through Mechanism

The EKPC Member Cooperatives shall include the following monthly adjustments in the determination of the applicable pass-through factors for the first six months after the date of this Order.

	<u>Total Amount of Over Recovery</u>	<u>Monthly Amount To Be Returned</u>	<u>Monthly Bill Impact</u>
Big Sandy RECC	\$32,142	\$5,357	\$0.36
Blue Grass Energy Cooperative	\$250,083	\$41,681	\$0.51
Clark Energy Cooperative	\$17,217	28,869	\$0.10
Cumberland Valley Electric	\$118,833	\$19,814	\$0.64
Farmers RECC	\$60,326	\$10,054	\$0.29
Inter-County Energy Cooperative	\$27,303	\$4,551	\$0.12
Licking Valley RECC	\$701	\$117	\$0.00
Nolin RECC	\$14,575	\$2,429	\$0.04
Owen Electric Cooperative	\$117,550	\$19,592	\$0.31
Salt River Energy Cooperative.	\$163,599	\$27,266	\$0.41
Shelby Energy Cooperative	\$69,628	\$11,605	\$0.45
South Kentucky RECC	\$360,764	\$60,127	\$0.65
Taylor County RECC	\$43,006	\$7,168	\$0.21
	<u>Total Amount of Under Recovery</u>	<u>Monthly Amount To Be Collected</u>	<u>Monthly Bill Impact</u>
Fleming-Mason Energy Coop.	\$224,864	\$37,477	\$1.24
Grayson RECC	\$7,911	\$1,319	\$0.08
Jackson Energy Cooperative	\$49,366	\$8,228	\$0.15

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